DavisCommodities LLC

February 2024 Market Commentary

For the month of February, the major positions in corn, soybeans, and soybean meal continued their drop that started in November, 2023. While these commodities have declined sharply, they are still overpriced fundamentally.

The corn balance sheet continues to be quite stable in projecting solid year over year growth in ending stocks for the US and the world in general. South American growing conditions are currently favorable and should favor steady overall production. Argentina may get a smidge bigger and Brazil slightly smaller, but in total, production is stable at this point. With US ending stocks growing ~800 million bushels (mb) and world stocks growing in excess of 20 million metric tonnes (mmt), rallies will be difficult to sustain. While some in the market will point to the large spec short position as a potential reason to be bullish, we have to remember that for every short there is a long. It will require a bad stretch of weather in order to shift the bearish tide. While we normally get at least one summer rally on weather, the overall trend to world supplies means that those rallies should be sold.

The soybean balance sheet continues to get looser as the calendar rolls forward. Back in October, USDA was projecting a US ending stocks of 220mb. As of their February report, their estimate is now 315mb. Our analysis indicates that USDA is still 100mb too low on their projections with the primary culprit being overly optimistic on US exports. Brazilian supplies are flowing at ~$1 per bushel under US prices for spot shipment and remain under US prices all the way out to our new crop. With Brazil production stabilizing in the mid 150's and a solid Argentine crop yet to be harvested, pressure should continue. In addition to record South American production of soybeans, the rebound in Argentine supplies will allow for a normalization of soybean meal production. As their crush rolls online in April-May, the US export business will dwindle leaving the domestic market as the primary outlet for US meal. With low competition for domestic demand, soybean meal prices should continue to weaken.

Both the live cattle and feeder cattle markets continued their rebound in February. At risk of sounding like a broken record, the sheer amount of culling of cows over the past two years has caused the available supply of feeder cattle to dwindle. With ~900m fewer feeder cattle outside of feed yards, there will continue to be strong demand for those smaller supplies. Interestingly, the winter weather has been good to the grass areas of the southern plains and southeast US. Lighter weight feeders will find a bid to go back onto grass and resold as yearlings in the fall, while US cattle feeders will be bidding to try to get them into the feedyard. With supply smaller and demand strong, feeder cattle prices should continue to step higher. As for live cattle, the cheapest cattle that a feedyard can buy are already in the yard. Look for them to stretch out the days on feed and adding weight to those cattle. That propensity to hold onto cattle will stretch out the current available supply. While there are currently more cattle in the feedyards than last year, the stretching of the supplies will actually lead to lower marketings than normal models would indicate. Lower marketings and solid demand from consumers should allow for live cattle prices to rise as well.

Sincerely,

Stephen Davis
March 6, 2024

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